

## ECONOMICS UNIT 2 VOCABULARY

**Microeconomics:** branch of economic theory that deals with behavior & decision making by small units such as individuals and firms.

**Circular Flow:** model that shows movement of money and goods/services between product and factor/resource markets, businesses & individuals.

**Product Market:** market where goods & services are offered for sale.

**Resource/Factor Market:** market where productive resources are bought and sold

**Money:** anything that serves a medium of exchange, a measure of value, and a store of value.

**Medium of Exchange:** money or other substitute generally accepted in exchange; one of the three functions of money.

**Income Payments:** The amount of money or its equivalent received during a period of time in exchange for labor or services, from the sale of goods or property, or as profit from financial investments.

**Transfer Payments:** payments for which the government receives neither goods nor services in return.

**Revenue:** The amount of money that a company actually receives during a specific time period; revenue is calculated by multiplying the price sold by the number of units or amount sold.

**Wages:** A regular payment, usually on an hourly, daily, or weekly basis, made by an employer to an employee, especially for manual or unskilled work.

**Interest:** payment made for the use of borrowed money.

**Rent:** Payment, usually of an amount fixed by contract, made by a tenant at specified intervals in return for the right to occupy or use the property of another. A similar payment made for the use of a facility, equipment, or service provided by another.

**Profit:** what is left after costs are paid by a business ( $R - C = \text{Profit}$ ).

**Bartering:** to trade goods or services with the exchange of money.

**Law of Demand:** rule stating that more will be demanded at lower prices and less at higher prices; inverse relationship between price and quantity demanded.

**Quantity Demanded:** amount consumers want at a given price; point on the demand curve.

**Demand Schedule:** listing showing the quantity demanded at all possible prices that might prevail in the market at a given time.

**Demand Curve:** graph showing the quantity demanded at each and every possible price that might prevail in the market at a given time.

**Law of Supply:** rule stating that more will be offered for sale at high prices than at lower prices; price and quantity supplied move together.

**Supply Schedule:** tabular listing showing the quantities produced or offered for sale at each and every possible price in the market.

**Supply Curve:** graphical representation of the quantities produced at each and every price in the market.

**Quantity Supplied:** amount offered for sale at a given price; point on the supply curve.

**Market Clearing Price:** a common, non-technical term for equilibrium price. In a market graph, the market-clearing price is found at the intersection of the demand curve and the supply curve

**Shortage:** situation where quantity supplied is less than quantity demanded at a given price.

**Surplus:** situation where quantity supplied is greater than quantity demanded at a given price.

**Equilibrium Price:** price where quantity supplied equals quantity demanded; price that clears the market.

**Price:** monetary value of a product established by supply and demand.

**Equilibrium Quantity:** the quantity supplied at the point where supply and demand curves cross.

**Change in Demand:** consumers demand different amounts at every price, causing the demand curve to shift to the left or right.

**Change in Supply:** different amounts offered for sale at each and every price in the market; shift in the supply curve to the left or right.

**Determinants:** or factors that cause the supply or demand curve to shift.

**Income:** see income payments

**Substitute Goods:** competing products that can be used in place of one another; products related in such a way that an increase in the price of one increases the demand for the other.

**Complementary Goods:** products that increase the value of other products; products related in such a way that an increase in the price of one reduces the demand for both.

**Normal Goods:** any goods for which demand increases when income increases, and falls when income decreases but price remains constant

**Inferior Goods:** a good that decreases in demand when consumer income rises or rises in demand when consumer income decreases.

**Subsidies:** government payments to encourage or protect a certain economic activity.

**Price Ceiling:** a maximum legal price that can be charged for a product and results in shortages.

**Price Floor:** lowest legal price that can be charged for a product and results in surpluses.

**Government Price Controls:** Government mandated minimum or maximum prices that can be charged for specified goods. Governments sometimes implement price controls when prices on essential items, such as food or oil, are rising rapidly.

**Minimum Wage:** lowest legal wage that can be paid to most workers and results in an increase in unemployment or surplus workers.

**Rent Control:** A price control that limits the amount a property owner can charge for renting out a home, apartment or other real estate; results in a shortage of housing.

**Price Elasticity of Demand:** measures the sensitivity of demand based on the movement of price.

**Price Elasticity of Supply:** measures the sensitivity of supply based on the movement of price.

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**Elastic:** type of elasticity where the % change in the price causes a more than proportional change in quantity demanded or supplied.

**Perfectly Elastic:** any change in price will result in no demand or price has no impact on supply.

**Inelastic:** a given change in price causes a relatively smaller change in the quantity demanded or supplied.

**Perfectly Inelastic:** a good or service will be bought regardless of the movement of price or the supply remains the same no matter the price.

**Sole Proprietorship:** business owned/run by single person getting all profits and has unlimited liability; most common form of business in U.S.

**Partnership:** business owned or operated by two or more people who share profits and have unlimited liability.

**Corporation:** business that is legal entity recognized as individual but has limited liability.

**Liability:** debt or obligation owed to others.

**Limited Liability:** personal property can't be taken to pay off debts.

**Unlimited Liability:** debts and obligations must be paid; personal property may be lost to meet debts.

**Double Taxation:** corporation profits are taxed once and then from that when dividends are paid to shareholders it is taxed again.

**Stock:** certificate of ownership in a corporation; common or preferred

**Shareholder:** also called stock holder, person who owns a share or shares of stock in a corporation.

**Limited Life:** situation in which a firm legally ceases to exist when an owner dies, quits, or new owner is added.

**Market Structure:** a market classification according to number and size of firms, type of product and type of competition.

**Monopoly:** market structure characterized by a single producer; from of imperfect competition or market failure.

**Oligopoly:** market structure in which a few large sellers dominate and have ability to affect prices in the industry; imperfect competition or market failure.

**Monopolistic Competition:** market structure having all conditions of perfect competition except for identical products; imperfect competition or market failure.

**Perfect or Pure Competition:** market structure characterized by a large number of well-informed independent buyers and sellers who exchange identical products.

**Price-Setting Powers:** the ability or strength within the market to set the prices.

**Product Differentiation:** real or imagined differences between competing products in the same industry.

**Non-Price Competition:** when firms compete by use of advertising to show difference in their product rather than through price.

**Barriers to Entry:** are obstacles that make it difficult to enter a given market such as government regulation and patents, or economies of scale.